
State Monitoring of Formula Grants



FINAL AUDIT REPORT

ED-OIG/A04-B0008
NOVEMBER 2001

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and effective use of taxpayer dollars
in support of American education



U.S. Department of Education
Office of Inspector General
Atlanta, Georgia

NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

NOV 27 2001

MEMORANDUM

TO: Susan B. Neuman
Assistant Secretary
Office of Elementary and Secondary Education

FROM: Lorraine Lewis *Lorraine Lewis*

SUBJECT: FINAL AUDIT REPORT
State Monitoring of Formula Grants
Control Number ED-OIG/A04-B0008

Attached is our subject final report that covers the results of our review of State monitoring of formula grants. We received your comments concurring with the findings and recommendations in our draft report.

Please provide the Supervisor, Post Audit Group, Office of Chief Financial Officer and the Office of Inspector General with quarterly status reports on promised corrective actions until all such actions have been completed or continued follow-up is unnecessary.

You have been designated as the primary action official for this report. The Assistant Secretaries in the Office of Special Education and Rehabilitative Services, and the Office of Vocational and Adult Education are collateral officials. Please coordinate with them regarding any actions in connection with the recommendations contained in the report.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions under the Act.

We appreciate the cooperation given us in the review. Should you have any questions, please call Carol S. Lynch, Regional Inspector General for Audit, at (404) 562-6462. Please refer to the above audit control number in all correspondence relating to this report.

Attachment

cc: Delores Warner, ALO, OESE



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

NOV 27 2001

THE INSPECTOR GENERAL

MEMORANDUM

TO: Robert Pasternack,
Assistant Secretary
Office of Special Education and Rehabilitative Services

FROM: Lorraine Lewis *Lorraine Lewis*

SUBJECT: **FINAL AUDIT REPORT**
State Monitoring of Formula Grants
Control Number ED-OIG/A04-B0008

Attached is a copy of the subject final report that covers the results of our review of State Monitoring of Formula Grants. We received your comments concurring with the findings and recommendations in our draft audit report.

You have been designated as a collateral action official for this report. The Assistant Secretary for Elementary and Secondary Education has been assigned as the primary action official. Please coordinate with her regarding any actions in connection with the recommendations.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions under the Act.

We appreciate the cooperation given to us in the review. Should you have any questions, please call Carol S. Lynch, Regional Inspector General for Audit, at (404) 562-6462. Please refer to the above audit control number in all correspondence relating to this report.

Attachment

cc: Barbara Bauman, ALO, OSERS



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

NOV 27 2001

THE INSPECTOR GENERAL

MEMORANDUM

TO: Carol D'Amico,
Assistant Secretary
Office of Vocational and Adult Education

FROM: Lorraine Lewis *Lorraine Lewis*

SUBJECT: FINAL AUDIT REPORT
State Monitoring of Formula Grants
Control Number **ED-OIG/A04-B0008**

Attached is a copy of the subject final report that covers the results of our review of State Monitoring of Formula Grants. We received your comments concurring with the findings and recommendations in our draft audit report.

You have been designated as a collateral action official for this report. The Assistant Secretary for Elementary and Secondary Education has been assigned as the primary action official. Please coordinate with her regarding any actions in connection with the recommendations.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions under the Act.

We appreciate the cooperation given to us in the review. Should you have any questions, please call Carol S. Lynch, Regional Inspector General for Audit, at (404) 562-6462. Please refer to the above audit control number in all correspondence relating to this report.

Attachment

cc: Helen Taylor, ALO, OVAE

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EXECUTIVE SUMMARY

We performed a review of States' monitoring of formula-based grant programs. The objective of our review was to determine whether States are monitoring elementary and secondary education formula grants at the sub-recipient level for compliance with appropriate laws and regulations. In addition, we compared the monitoring methods used at the States to a set of standards proposed by the OIG, as the minimum standards needed for effective monitoring and oversight. To accomplish our objectives we focused our review on the three programs with the preponderance of formula based grants at the State level. These programs are Title I (Elementary and Secondary Education Act), Special Education (The Individuals with Disabilities Education Act, Part B), and Vocational Education (Carl D. Perkins Vocational Education Act).

Based on the information we obtained during our review, we conclude that State program offices included in our review have monitoring systems in place to monitor sub-recipients. In addition, for the most part these monitoring systems meet the minimum monitoring standards proposed by the Office of Inspector General. These monitoring systems include conducting on-site visits on a cyclical basis, technical assistance, and enforcement of instances of noncompliance. State program officials indicated that the results of site visits are documented in writing. In addition, there was full time staff devoted to monitoring, and they used a formal monitoring instrument.

In addition to the monitoring performed by State program officials, States and sub-recipients are being audited in accordance with Office of Management and Budget (OMB) Circular A-133. These audits are performed by the State Auditor, city or county auditors or by independent public accountants (IPA). Each State reported that there is an office responsible for resolving findings contained in the single audit reports. We found, however, that not all State program offices track and analyze single audit findings and site visit results. State program offices that performed this analysis also had the capability to report the results to the Department. However, these program offices were not doing so. In addition, we noted that there is very little coordination between the State program offices and the State offices responsible for performing or receiving the audits, and the offices responsible for resolving the audit findings. We have made two recommendations to Department program officials related to how States track single audit findings and coordinate with officials performing or receiving audits, and offices performing monitoring reviews.

Department program officials concurred with our recommendations and discussed implementation procedures. The full text of the comments is included as Attachment A.

Background

The Department of Education awards approximately \$13 billion to States and school districts for elementary and secondary education. These awards are primarily through formula-based grant programs designed to support improvements in basic and academic skills and to help States and school districts meet the special needs of schools and students. The awards also help States meet their responsibility to provide a free and appropriate public education for children with disabilities. Six programs account for approximately 95 percent of the Department's funding to elementary and secondary education. These are the Goals 2000 Program under the Educate America Act, Title I of the Elementary and Secondary Education Act, the Dwight D. Eisenhower Professional Development programs, the Safe and Drug-Free Schools program, the Perkins Vocational Education program, and Part B of The Individuals with Disabilities Education Act.

For formula-based grant programs, States are usually the primary grant recipient and they are required to pass the majority of grant funds through to local educational agencies. As the primary grant recipients, States are responsible for ensuring that all of the Federal funds they receive, including funds passed to sub-recipients are used only for program related purposes as described in the grant agreement or statute.

Monitoring Requirements

The Education Department General Administrative Regulations (EDGAR) found in 34 CFR 80 contain provisions requiring States to monitor sub-recipients to ensure compliance with applicable Federal requirements. In addition, OMB Circular A-133 requires States to monitor sub-recipients. In addition to EDGAR, there are program-specific requirements that direct State education officials to monitor formula grant sub-recipients. For Title I, the Improving America's Schools Act (IASA) states that State education agencies (SEA) have the overall responsibility for ensuring that Title I monies are used in compliance with all requirements. There are specific requirements for Special Education in the The Individuals with Disabilities Education Act (IDEA) that direct SEAs to ensure that the requirements of IDEA Part B are met. Requirements for monitoring programs and activities used by the States to carry out IDEA Part C are found in both the U.S. Code and the Code of Federal Regulations. Aside from the provisions set forth in EDGAR, there are no specific statutory and regulatory provisions that relate specifically to monitoring vocational education programs.

Currently, there are no specific laws or regulations that require a particular method of monitoring or dictate the frequency of monitoring activities. To evaluate the adequacy of monitoring, we compared State program offices' current monitoring systems to the minimum standards for SEA monitoring of local education agencies (LEA) proposed by the Office of Inspector General. These standards first appeared in "An OIG Perspective on the Reauthorization of the Elementary and Secondary Education Act," dated February 1999. Using these standards the SEAs would:

- Conduct monitoring of LEAs sufficient to ensure compliance with program requirements.
- Document the purpose, scope, and results of each oversight activity.
- Ensure that appropriate technical assistance and enforcement measures are taken when necessary.
- Systematically analyze the results of LEA audits and other oversight activities to identify trends in findings and develop monitoring and technical assistance strategies to reduce occurrences of similar problems.
- Annually report the results of these analyses to the Department.

STATE AGENCIES MONITORING SYSTEMS OVERVIEW

We visited nine program offices (Title I, Vocational Education, and Special Education) in three States to determine the level of monitoring for compliance regulations. We also sent a survey questionnaire to 30 program offices in ten randomly selected States for these three programs. Twenty-nine of the State program offices responded to our questionnaire. In addition, we analyzed information on monitoring obtained by the General Accounting Office in a survey of State Title I directors of the Title I program. The following is a summary of the information we obtained by program.

Title I Program

Twelve of the thirteen State Title I program offices reported having a monitoring system that includes LEA site visits conducted on a cyclical basis. One State Title I program office indicated that they are in the process of developing their monitoring system. In one of the States we visited, program officials reported that they approach their oversight process from a technical assistance rather than a strictly compliance perspective. The reported range of site visits to LEAs was three to five years. One State Title I program office reported that they only visit LEAs with schools designated as low performing and only at the LEA's request. Twelve Title I program offices reported that they have a monitoring

instrument and one State was in the process of developing their instrument. Eleven of the State Title I program officials indicated that they issue a formal report, with twelve indicating that they have enforcement measures in place to handle issues of noncompliance. All thirteen Title I State program officials reported that they provide technical assistance. Only four State Title I officials reported that they have or are in the process of developing a database for analyzing site visit results and monitoring findings for trends. See Appendix, Table 3 for the results of GAO's survey of all 50 States' Title I directors regarding monitoring of the Title I program.

Special Education

All thirteen State special education program offices reported having a monitoring system that includes site visits conducted on a cyclical basis. LEAs' site visits ranged from three to six years. One State program office indicated that there was no yearly cycle. All of the thirteen State special education program offices indicated that the results of reviews are documented in a formal report. Twelve of the State program offices reported that they use a monitoring instrument for the review and all indicated that they provide technical assistance. Also, twelve of the thirteen State special education offices indicated that there are procedures in place for handling instances of noncompliance identified through monitoring. Seven of the thirteen state program offices reported that they have a database or are in the process of developing a system that tracks audit and monitoring findings.

Vocational Education

The twelve State vocational education program offices reported having monitoring systems that consist of site visits conducted on a cyclical basis. LEAs are visited every two to five years. Two States indicated that there is no yearly cycle and that they visit LEAs as needed. Eight of the twelve vocational offices indicated that they document the results of the monitoring in a formal report. All twelve State vocational education program offices reported that they have monitoring instruments for compliance monitoring and provide technical assistance to LEAs when necessary. Nine of the twelve State vocational education offices reported having measures in place to address issues of noncompliance. Only three State offices reported that they either formally (with a database) or informally track previous oversight activity to identify any trends.

Single Audit

In addition to the monitoring performed by State Program officials, States and sub-recipients are being audited in accordance with Office of Management and Budget (OMB) Circular A-133. These audits are performed by the State Auditor, city or county auditors or by independent public accountants (IPA). In each of the three States we visited, we met with the State Auditor and other State officials responsible for performing

or receiving the single audit to discuss and review the process used by each of these States to perform and process single audits of sub-recipients.

We found that in each of the three States a division separate from the program offices is responsible for resolving single audit findings. In discussions with the nine program offices in these States, we learned that the program offices only receive single audit reports if the reports contain findings related to their particular program. One State Title I program office reported that they monitor formula grant sub-recipients on a cyclical basis and rely on single audit reports to monitor LEA compliance annually. A second State Title I office indicated to us that their office has little, if any, interaction with the State office responsible for performing or receiving single audits.

The majority of the State program offices are monitoring on a cyclical basis that ranges from two to six years. Since single audits are performed on an annual basis, these audits are an additional tool for monitoring compliance. As a means of monitoring, State program offices and State offices performing or receiving single audits, and offices resolving the audit findings need to coordinate in order to make the single audits more effective.

All States are required to submit their LEA single audit reports to the Single Audit Clearinghouse. Following the minimum standards proposed in the OIG Perspectives Paper, State program officials would analyze the results of LEA audits and State program monitoring activities to identify trends and develop monitoring and technical assistance strategies to reduce the occurrence of similar problems. However, the results of our review show that not all State program officials track and analyze single audit findings and monitoring site visit results. Our review showed that only four State Title I offices, seven State special education offices, and three State vocational education offices either formally or informally tracked or analyzed findings from single audits or monitoring reviews to identify trends. State program officials that tracked and analyzed findings had the capability to report the results to the Department. However, none currently do so.

CONCLUSION

Based on this work, for the State offices included in our review, we conclude that Title I, Special Education, and Vocational Education State program officials monitored formula grants for compliance with applicable program laws and regulations. EDGAR requires state education agencies to monitor formula grant sub-recipients to ensure compliance with

applicable federal laws and regulations. State program offices did have monitoring systems in place or were in the process of developing such a system. Currently, there are no specific laws and regulations that require a particular monitoring method or prescribe the frequency of monitoring activities. We did not perform extensive testing in each State to evaluate the effectiveness of the States' monitoring methods to address compliance.

State monitoring systems appear to be adequate when compared to the minimum standards proposed in the OIG Perspectives Paper. These monitoring systems consisted of site visits; the provision of technical assistance and the documentation of monitoring site visit results. State program officials also reported that there were enforcement measures in place to handle instances of noncompliance. However, not all State program offices tracked and analyzed single audit findings and monitoring site visit results. State program officials that performed this kind of analysis had the capability to report the results to the ED.

RECOMMENDATIONS

We recommend that the Assistant Secretaries in the Office of Elementary and Secondary Education, the Office of Special Education and Rehabilitative Services, and the Office of Vocational and Adult Education, in their monitoring and oversight efforts encourage State program offices to:

- 1.1 Establish better coordination between State program offices and State offices performing or receiving LEA Single Audits, and offices resolving the audit findings.
- 1.2 Track and analyze single audit findings and site visit results to identify trends and develop and implement monitoring and technical assistance strategies to reduce occurrences of similar problems.

Auditee's Comments

The primary and two collateral action officials concurred with both of the recommendations contained in the report. A full text of the comments is included as Attachment A.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our review was to determine whether States are monitoring elementary and secondary education formula grants at the sub-recipient level. We also evaluated the States' monitoring methods using the minimum standards proposed by the Office of Inspector General in the February 1999 *Perspectives Paper on the Reauthorization of the ESEA*.

We focused our review on the three programs with the preponderance of formula based grants at the State level. The programs were the Title I program in the Office of Elementary and Secondary Education, Special Education (Individuals with Disabilities Education Act, Part B) in the Office of Special Education and Rehabilitative Services and Vocational Education (Perkins III) in the Office of Vocational and Adult Education.

To accomplish our objectives, we performed the following:

- Researched statutory and regulatory provisions applicable to formula grant monitoring. In addition, we had discussions with Education Program officials concerning the monitoring requirements with the States.
- Analyzed information contained in the Single Audit Clearinghouse database related to findings contained in single audit reports.
- Conducted site visits to three States to interview State education program officials and State audit officials to determine the level of monitoring for compliance regulations. See the APPENDIX, Table 1 for the States visited by ED-OIG.
- Conducted a survey via a questionnaire of ten randomly selected States. The questionnaire was sent to State program offices to identify the level of monitoring in the three program areas in our scope. We did not confirm the information provided as a result of the survey questionnaire. See the APPENDIX, Table 2 for a listing of the randomly selected States.
- Analyzed information obtained by the General Accounting Office (GAO) in a survey of State Title I Directors on the Title I program. See the APPENDIX, Table 3 for a synopsis of GAO's findings and the related report information.
- Reviewed the OIG Perspectives Paper to identify the OIG proposed minimum standards for State monitoring of local education agencies.

The audit period covered fiscal year 2000 (October 1, 1999 to September 30, 2000). We conducted site visits to the States of Georgia, Tennessee, and South Carolina in July and August of 2000. Information from our survey questionnaire was collected during July and August 2000. Our review was conducted according to government auditing standards appropriate to the scope of the review described above.

STATEMENT ON MANAGEMENT CONTROLS

We did not assess the various States' management controls over their monitoring systems because it was not significant to our specific audit objectives. We summarized the information obtained from the State program offices for inclusion in our report. In addition, we analyzed the information to identify common areas of concern. In analyzing the adequacy of the States monitoring systems, we compared the elements of the systems to the standards proposed in the OIG Perspectives Paper. We did not evaluate the effectiveness of the various States' monitoring systems.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in management controls. However, our review did identify two areas of concern as discussed in the body of the report.

SUMMARY OF STATE MONITORING DATA COLLECTED FROM SITE-VISITS AND SURVEY QUESTIONNAIRE

Table 1

Name of State and Program	Monitoring System in Place	Cycle Frequency of Site Visits
<i>ED-OIG SITE VISIT</i>		
<u>GEORGIA</u>		
Title I	Yes	¹
Special Education	Yes	5 years
Vocational Education	Yes	5 years
<u>TENNESSEE</u>		
Title I	Yes	3 years
Special Education	Yes	3 years
Vocational Education	Yes	5 years
<u>South Carolina</u>		
Title I	Yes	3 years
Special Education	Yes	4 years
Vocational Education	Yes	Annual

¹ Visits LEA based on low performing schools (LPS). Focus of visit is technical assistance. For FY 1999 visited 350 of designated 600 LPSs in State.

Table 2

Name of State and Program	Monitoring System in Place	Cycle Frequency of Site Visits
<i>ED-OIG SURVEY QUESTIONNAIRE</i>		
<u>ALABAMA</u>		
Title I	Yes	5 years
Special Education	Yes	5 years
Vocational Education	Yes	5 years
<u>ARIZONA</u>		
Title I	Yes	4 years
Special Education	Yes	6 years
Vocational Education	Yes	20% per year
<u>ARKANSAS</u>		
Title I	Yes	Rotating Basis ²
Special Education	Yes	3 years
Vocational Education	Yes	3 - 4 years
<u>COLORADO</u>		
Title I	Yes	Annual
Special Education	Yes	5 years
Vocational Education	Yes	3 years
<u>LOUISIANA</u>		
Title I	In Development	To Be Established ³
Special Education	Yes	
Vocational Education	Being Revised	5 years
<u>NEBRASKA</u>		
Title I	Yes	3 years ⁴
Special Education	Yes	5 years
Vocational Education	Yes	2 years
<u>NEW MEXICO</u>		
Title I	Yes	3 years
Special Education	Yes	3 years
Vocational Education	Yes	3 years
<u>NEW YORK</u>		
Title I	Yes	5 years ⁵
Special Education	Yes	
Vocational Education	Yes	⁶
<u>NORTH DAKOTA</u>		
Title I	Yes	5 years
Special Education	Yes	5 years
Vocational Education	Yes	5 years
<u>WYOMING</u>		
Title I	Yes	5 years
Special Education	Yes	5 years
Vocational Education	No response	No response

² Rotating basis, number of visits vary based on funding restraints.³ One-third of LEAs each year, based on LEA performance.⁴ Largest LEAs are visited annually.⁵ No cycle, LEAs are visited based on performance.⁶ No cycle, LEAs are visited as needed.

Table 3

<i>GAO SURVEY and REPORT on the TITLE I PROGRAM⁷</i>
<p>Congress requested that GAO examine the implications of the 1994 changes to the Title I program. The objectives of the study included describing how States and the Federal government exercise general oversight for the Title I program. GAO surveyed the Title I Directors in all 50 States to obtain information on how they monitor the Title I program at the district and school levels. In regards to monitoring, GAO reported that States varied considerably in the frequency and focus of their efforts to monitor compliance with Title I requirements and to oversee program quality. GAO reported that some States approach their oversight process from a technical assistance rather than strictly a compliance perspective. The average time between visits ranged from 2 years or less to more than 7 years. Three States reported that they made no on-site visits and three indicated that they visited all their school districts each year.</p>

⁷ General Accounting Office (GAO) report titled Title I Program – Stronger Accountability Needed for Performance of Disadvantaged Students, dated June 2000. Report number GAO/HEHS-00-89.



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF ELEMENTARY AND SECONDARY EDUCATION

THE ASSISTANT SECRETARY

MEMORANDUM

OCT 6 2001

To: Lorraine Lewis
Inspector General

From: Susan B. Neuman, Ed.D.

Susan B. Neuman

Subject: Draft Audit Report: State Monitoring of Formula Grants – A04-B0008

I am responding to the recommendations included in the Draft Audit Report at page 6. My response incorporates the comments of two other principal offices as well as the Office of Elementary and Secondary Education (OESE): the Office of Vocational and Adult Education (OVAE) and the Office of Special Education Programs (OSEP).

"We recommend that Department program officials, in their monitoring and oversight efforts encourage State program offices to:

- 1.1 Establish better coordination between State program offices and State offices performing or receiving LEA Single Audits, and offices resolving the audit findings."

All three offices concur with this recommendation even though none of our authorizing statutes require State program offices to conduct this type of coordination. We all believe that better coordination will enhance the implementation of our programs. OVAE will incorporate the recommendation into the monitoring process scheduled to begin in January 2002. As OESE reconsiders its monitoring activities, I have asked my senior staff to include this recommendation.

- 1.2 "Track and analyze single audit findings and site visit results to identify trends and develop monitoring and technical assistance strategies to reduce occurrences of similar problems."

Page 2 - Lorraine Lewis

All three offices concur with this recommendation even though none of our authorizing statutes require State program offices to conduct this type of activity. We all believe that better tracking and analysis of audit findings will enhance the implementation of our programs. OVAE will incorporate the recommendation into the monitoring process scheduled to begin in January 2002. As OESE reconsiders its monitoring activities, I have asked my senior staff to include this recommendation.

Please note that there is a typographical error on page 2, paragraph 1, last line. The reference to the law should read: "The Individuals with Disabilities Education Act."

If you have any questions about this response, please contact Delores Warner of my staff on 202-260-1941.

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